

**FINAL REPORT
OF THE
UNEMPLOYMENT INSURANCE
OVERSIGHT COMMITTEE**



**Indiana Legislative Services Agency
200 W. Washington St., Suite 301
Indianapolis, Indiana 46204-2789**

November 2012

INDIANA LEGISLATIVE COUNCIL

2012

Senator David Long

Vice-Chairperson

Fort Wayne

Speaker Brian Bosma

Chairperson

Indianapolis

Senator Vi Simpson

Bloomington

Representative Linda Lawson

Hammond

Senator Brandt Hershman

Buck Creek

Representative Kathy Richardson

Noblesville

Senator Patricia Miller

Indianapolis

Representative William Friend

Macy

Senator Brent Steele

Bedford

Representative Eric Turner

Cicero

Senator James Merritt

Indianapolis

Representative Timothy Brown

Crawfordsville

Senator James Arnold

LaPorte

Representative Vanessa Summers

Indianapolis

Senator Timothy Lanane

Anderson

John M. Ross
Executive Director
Legislative Services Agency

Unemployment Insurance Oversight Committee

Membership Roster

Senators

**Philip Boots, Chair
Crawfordsville**

**Karen Tallian
Portage**

**Brent Waltz
Indianapolis**

Representatives

**Douglas Gutwein
Francesville**

**Dan Leonard
Huntington**

**Charles Moseley
Portage**

Lay Members

**Ron Metz
Kokomo**

**Pete Rimsans
Indianapolis**

**Steven Quick
Indianapolis**

**Steve Schreckengast
Lafayette**

**Commissioner Scott Sanders
Indianapolis**

Legislative Services Agency Staff

**Stephanie Wells, Fiscal Analyst
Chuck Mayfield, Fiscal Analyst
Peggy Piety, Attorney
Susan Montgomery, Attorney**

November 2012

ANNUAL REPORT

Unemployment Insurance Oversight Committee

I. STATUTORY DIRECTIVE

The Indiana General Assembly enacted legislation directing the Committee to do the following:

1. Oversee the implementation of unemployment insurance legislation enacted by the General Assembly in 2009.
2. Oversee the administration of the unemployment insurance system by the Department of Workforce Development.
3. Make recommendations to improve the following:
 - a. The proper collection of employer contributions and reimbursements.
 - b. The determination of eligibility for and the payment of benefits.
4. Monitor the solvency of the fund.
5. Make recommendations to improve the solvency of the fund.
6. Make a report annually to the Legislative Council concerning the solvency of the fund. The report must be in an electronic format under IC 5-14-6.
7. Study and make recommendations concerning approaches taken by other states to improve the solvency of unemployment insurance benefit trust funds, including the indexing of:
 - a. unemployment benefits; and
 - b. the taxable wage base.

II. SUMMARY OF WORK PROGRAM

The Committee met to discuss the funding status of the Unemployment Insurance Benefit Trust Fund and hear testimony on recent federal unemployment insurance law changes.

III. SUMMARY OF TESTIMONY

The Committee heard testimony from Mr. Scott Sanders, Commissioner of the Department of Workforce Development (DWD), who updated the Committee on the state of the Unemployment Insurance Trust Fund, the new federal unemployment insurance legislation, and other related matters.

The Commissioner stated that Indiana's unemployment numbers have improved since 2011, with the Indiana seasonally adjusted unemployment rate for July 2012 at 8.2%. This is below both the national and Midwest region average. Indiana's private sector job growth is at 6.2%, which is almost double the national growth rate of 3.4%. Since 2009, 143,000 jobs have been added, making Indiana 4th nationally in regards to private sector job growth.

When comparing Indiana's Unemployment Insurance Trust Fund indebtedness to other states, Indiana is 8th in the nation, at \$1.7 billion. Indiana began borrowing from the federal government to pay for unemployment insurance benefits in December 2008. The state ceased borrowing within the past month and is now generating enough revenue from taxes on businesses to pay out weekly benefits.

During 2011, the Indiana General Assembly made legislative amendments through House Enrolled Act 1450 that increased employer contributions to the Unemployment Insurance Trust Fund while at the same time reducing the unemployment insurance benefits to eligible individuals. These changes, combined with the improving unemployment rate and subsequent reduction in unemployment insurance claims, has assisted in reducing the indebtedness of the Unemployment Insurance Trust Fund. Current unemployment insurance claims are down to 2005-2006 levels, which represents a significant decrease from the peak in 2008. Forecasting indicates that claims should continue to hold at 2007 levels. If these projections are correct, the Trust Fund should pay back all of the loans in 2018.

Unemployment Insurance Trust Fund Balance

(\$ millions)	Premiums	Benefits	FUTA Penalty*	TF Balance	Interest Surcharge	Employer Totals
2011 Actual	\$702.60	\$776.50	\$55.00	(\$1,950.00)	\$77.80	\$835.40
2011 Forecast**	\$723.50	\$883.80	\$58.80	(\$2,057.00)	\$81.40	\$863.70
\$ Difference	(\$20.90)	-107.3	(\$3.80)	\$107.30	(\$3.60)	(\$28.30)
% Difference	-3%	-12%	-6%	-5%	-4%	-3%
2012 Actual (through July 31)	\$545.90	\$463.80	\$102.60	(\$1,740.10)	\$44.00	\$692.50
2012 Forecast** (through July 31)	\$541.30	\$555.50	\$117.60	(\$1,904.00)	\$45.00	\$703.90
\$ Difference	\$4.60	(\$91.70)	(\$15.00)	\$163.90	(\$1.00)	(\$11.40)
% Difference	1%	-17%	-13%	-9%	-2%	-2%

*The Federal Unemployment Tax Act (FUTA) increases that are placed on employers while the Trust Fund is in debt will increase annually until the state's Trust Fund meets several solvency criteria. This should occur in 2014, when FUTA will be capped at \$84 per worker until such time as the loans are fully repaid.

**Using forecast from January 2011

In 2011, the Trust Fund had a deficit of \$1.95 billion, which has been reduced to \$1.74 billion in 2012. In 2012, the state paid \$56 million in interest on the federal loan at an interest rate of 2.94%. This rate is lower than the 4.08% interest rate in 2011, which cost the state \$78 million. These interest rates are set by the federal government during

the 4th quarter of each year.

Commissioner Sanders also addressed the recent reports on improper unemployment insurance benefit payments. He stated that work search and job bank registration requirements had comprised almost 80% of the reported improper payments. After this peak, a number of adjustments and improved reporting to the federal government have taken place. As a result, in 2012, less than 1% of improper payments were due to work search and job bank registration issues. It was noted that improper payments are not the same as overpayments. Indiana's actual level of overpayment is 2.6% of benefits paid, and Indiana is on par with both the national average and other surrounding states as regards the percent of unemployed who collect state benefits.

On February 17, 2012, a federal unemployment insurance extension bill was passed. Due to the legislation, federal extensions have been rolled back from the maximum of 99 weeks to the current maximum 63 weeks of unemployment insurance benefits for eligible individuals.

All federally funded extended benefits will expire December 31, 2012. Individuals will be unable to finish their current tiers at that point, which has never occurred before; in the past, individuals were allowed to continue receiving benefits for the amount of time remaining within their current tier. This situation is also known as a "hard stop".

The Indiana Unemployment Insurance Modernization (UIM), which will automate much of DWD's unemployment insurance system for both claimants and employers, is set to launch in the 4th quarter of 2012. This initiative, done collaboratively with DWD and Haverstick Consulting, is in the final testing phases.

IV. COMMITTEE FINDINGS AND RECOMMENDATIONS

The Committee made no recommendations.

WITNESS LIST

Commissioner Scott Sanders, Indiana Department of Workforce Development